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REGARD TO THE IMPLEMENTATION OF THE
DECLARATION ON THE GRANTING OF
INDEPENDENCE TO COLONIAL COUNTRIES
AND PEOPLES

ACTIVITIES OF FOREIGN ECONOMIC AND OTHER INTERESTS WHICH ARE IMPEDING THE IMPLEMENTATION OF THE DECLARATION ON THE GRANTING OF INDEPENDENCE TO COLONIAL COUNTRIES AND PEOPLES IN ALL TERRITORIES UNDER COLONIAL DOMINATION AND EFFORTS TO ELIMINATE COLONIALISM, APARTHEID AND RACIAL DISCRIMINATION IN SOUTHERN AFRICA

CAYMAN ISLANDS

Working paper prepared by the Secretariat

1. Basic information on economic conditions in the Cayman Islands with particular reference to foreign economic interests is contained in the working paper prepared by the Secretariat in 1993 (A/AC.109/1138). Supplementary information on the activities of foreign economic interests in the Territory is set out below. 1/

2. During the period under review, foreign investments continued to represent an important share in the main economic sectors of the Territory, namely, finance, insurance, tourism, real estate and construction. They are generally encouraged by the territorial Government as an important source of economic growth as they provide substantial amounts of capital and foreign exchange. The Territory's economy has demonstrated stable and unprecedented growth during the last decade. The standard of living in the Territory in 1992 was the highest in the Caribbean and one of the highest in the world. In 1992, the gross national product of the Cayman Islands was CI$ 558 million. 2/ As reported previously, the Cayman Islands is the fifth world financial centre, following the United Kingdom of Great Britain and Northern Ireland, Japan, the United States of America and France.

3. The territorial Government, during the period considered, continued to promote the Cayman Islands as one of the world's largest financial centres.

Further steps have been taken to attract such foreign investments as could be beneficial to the Territory.

4. As a result, the number of companies registered in the Territory rose to 23,700 in 1991 from 22,260 in 1990. Reflecting the importance of the offshore financial activity, the greater part of the increase (64 per cent) took place in the "Exempt" category (companies incorporated in the Cayman Islands but carrying on business with non-residents), with domestic companies doing business locally making up the bulk (34 per cent) of the remainder. The number of registered banks and trust companies fell to 544 as a result of the decrease from 34 to 32 in the number of institutions licensed to do business with residents. On the other hand, the number of licensed offshore insurance companies rose to 365 from 359 at the end of 1990. 3/ Total assets of licensed banks at the end of 1991 amounted to more than US$ 450 billion. 4/

5. The financial industry's net contribution to the total output of the economy of the Cayman Islands increased by 6 per cent from CI$ 54 million in 1990 to CI$ 57 million in 1991. During the same period, the total output of the economy in real terms was CI$ 446 million and CI$ 453 million, respectively. The direct contribution of the financial industry to public revenue increased by 14.3 per cent from CI$ 17.5 million in 1990 to CI$ 20 million in 1991. During that time period, growth in employment by the industry rose from 2.4 per cent to 3.8 per cent. 3/

6. In 1992, the insurance industry employed over 200 persons and contributed almost CI$ 2 million directly to government revenue. In 1991, the industry wrote more than CI$ 1.3 billion in premiums and had net assets of more than CI$ 4 billion, a significant portion of which was deposited with the islands' banks. 3/

7. As reported in a previous working paper (A/AC.109/1117, para. 5), the supervision of foreign investment in the Territory is carried out by the Banking Supervision Department and governed by banking and trust laws. The Department monitors operations of foreign investors and ensures adherence to the territorial guidelines and requirements. Those accord in full with the standards of the Basel Concordat, an international body comprising supervisory authorities around the world.

8. Over the past year, the Government continued to take steps aimed at protecting the economic structure of the Territory from illicit activities of foreign economic interests, such as drug trafficking, money laundering, smuggling of funds, tax evasion and other forms of economic fraud. As previously reported (A/AC.109/1117, para. 7), in 1989, the territorial Government, along with the Governments of the United Kingdom and the United States, signed a Mutual Legal Assistance Treaty, which provides for the exchange of information on a range of crimes. The Cayman Islands is a member of a Caribbean Customs Agreement entitled "The Memorandum of Understanding regarding Mutual Assistance and Cooperation for the Prevention and Repression of Customs Offenses in the Caribbean Zone" aimed at preventing problems arising from smuggling of funds, money laundering and false invoicing, as well as detecting various kinds of white-collar fraud and drug trafficking.

9. According to press reports in October 1992, the United States Drug Enforcement Agency arrested two key figures of an international cocaine cartel, who had once planned to buy a private bank in the Cayman Islands as a means of laundering millions of dollars in drug profits. Although no Caymanians were involved, over 200 other persons were apprehended world wide. 5/

10. According to a local publication, a US$ 16 million radar station was officially opened in January 1993 as part of the Caribbean Basin Radar Network (CBRN). CBRN is an effort by the United States, in cooperation with Caribbean, Central and South American countries, to improve radically aerial drug surveillance and related law enforcement coordination. CBRN would also be used for civil air traffic control, as well as search and rescue operations in the region. 6/

11. In March 1992, the Commercial Crime Branch of the Royal Cayman Islands Police (RCIP) issued a bulletin warning that quantities of counterfeit United States dollar bank notes in various denominations were believed to be in circulation in the Territory. Serial numbers of the counterfeit notes were published in the bulletin. 7/

12. The seizure of the Bank of Credit and Commerce International (BCCI) by banking regulators in July 1991 and its subsequent liquidation, following allegations of massive fraud on a global scale, have had serious repercussions in the Cayman Islands since the three main operating affiliates of the bank were based in the Territory (see A/AC.109/1117, para. 8).

13. It was estimated that US$ 35 million were on deposit locally from Cayman residents and companies when the bank was seized. 8/ In July 1992, following seven months of negotiations, a settlement plan was proposed to creditors, which would enable them to collect a reimbursement of between US$ 0.30 and US$ 0.40 cents on every dollar. Although a Caymanian court had already approved the compensation scheme, 9/ local depositors had to wait for implementation of the settlement proposal, since a court in Luxembourg, where BCCI was registered, ruled that all 250,000 creditors of the bank in 40 countries world wide had to be consulted and that a majority had to accept the proposal before it could be implemented. 10/ In October 1992, following the consultation of creditors, the Luxembourg court approved the liquidation settlement. 11/ In January 1993, however before the settlement could be effected, the court postponed its decision *sine die*, as three creditors filed an appeal in Luxembourg demanding higher financial compensation. The appellants believed that the trials in the United States of alleged key figures in the BCCI operation would strengthen their case. 12/

14. It was reported previously that a number of companies were involved in stamp duty evasion operations. The companies had effected land transfers "for natural love and affection", thereby legally avoiding the 7.5 per cent mandatory stamp duty. This legal loophole led to a significant decrease in that source of government revenue. Of the 1,709 real estate transactions which took place in 1991, 342 were such land transfers. 13/

15. In October 1992, the Cayman Islands Chamber of Commerce announced the formation of a Better Business Council to assist consumers, both locally and abroad, who have business dealings with Chamber members. 14/

Notes

1/ The information contained in the present paper has been derived from published reports and from the information for 1990 and 1991 transmitted to the Secretary-General on 24 July and 30 December 1991 by the Government of the United Kingdom of Great Britain and Northern Ireland under Article 73 e of the Charter of the United Nations.

2/ The local monetary unit is the Cayman Islands dollar (CI$). Under the Articles of Agreement of the International Monetary Fund, the value of the Cayman Islands dollar in relation to the United States dollar is fixed at CI$ 1.00 = US$ 1.20.

3/ The Caymanian Compass, 26 September 1991.

4/ Caribbean Update (United States of America), August 1992.

5/ The Caymanian Compass, 2 October 1992.

6/ Ibid., 25 January 1993.

7/ Ibid., 5 March 1993.

8/ Ibid., 28 October 1992.

9/ Ibid., 13 August 1992.

10/ Ibid., 21 July 1992.

11/ Ibid., 23 October 1992.

12/ The Guardian (London), 8 January 1993.

13/ The Caymanian Compass, 27 January 1992.

14/ Ibid., 27 October 1992.